

Message Text

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E.O. 11652: N/A
TAGS: EFIN, EMIN, RP
SUBJECT: THE CONTINUING PERILS OF THE MARINDUQUE NICKEL PROJECT

1. SUMMARY. THE MARINDUQUE NICKEL PROJECT WILL TURN IN ANOTHER DISAPPOINTING PRODUCTION YEAR, PROBABLY LESS THAN 50 PER CENT OF CAPACITY. THIS IS APPARENTLY CONTRIBUTING TO A RECRUDESCENCE OF CASH FLOW PROBLEMS, AND MARINDUQUE HAS APPLIED FOR AUTHORITY TO ISSUE SHORT-TERM INSTRUMENTS ON THE LOCAL MONEY MARKET. RUMORS THAT DEVELOPMENT BANK OF THE PHILIPPINES WANTS TO TAKE OVER ARE PROBABLY UNTRUE, BUT RUMORS THAT SHERRITGORDANMINESMAY WISH TO ASSUME CONTROL

ARE MORE CREDIBLE. MANAGEMENT SEEMS TO BELIEVE THAT PRODUCTION PROBLEMS CAN BE RESOLVED. END SUMMARY.

2. THE NONOC ISLAND NICKEL PROJECT OF MARINDUQUE MINING AND INDUSTRIAL CORPORATION (MMIC) CONTINUES TO EXPERIENCE PRODUCTION PROBLEMS, AND CONSEQUENT FINANCIAL DIFFICULTIES, WHICH HAVE INSPIRED PRESS SPECULATION ON POSSIBLE FUTURE MOVES BY THE FIRM TO DEAL WITH ITS PROBLEM.

3. IN THE DECEMBER 17 ISSUE OF THE FAR EASTERN ECONOMIC REVIEW, CORRESPONDENT LEO GONZAGA (WHO WELL PLUGGED-IN AND WHO AUTHORS THE AMERICAN CHAMBER OF COMMERCE BULLETIN) REPORTED RUMORS THAT MMIC WOULD BE TAKEN OVER BY THE DEVELOPMENT BANK OF THE PHILIPPINES (DBP) (WHICH
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HAS BEEN DENIED BY DBP), AND THAT MMIC WOULD SPLIT OFF

ITS NICKEL OPERATION FROM THE MORE PROFITABLE COPPER MINING AND CEMENT MANUFACTURE. GONZAGA ALSO DREW ATTENTION TO THE FACT A RECENT REPORT TO THE SECURITIES AND EXCHANGE COMMISSION (SEC) SHOWS THAT DBP THE TOP 20 STOCKHOLDERS LAST YEAR. THE REPORT TO THE SEC WAS PART OF AN APPLICATION BY MMIC TO ISSUE 320 MILLION PESOS OF SHORT-TERM INSTRUMENTS ON THE LOCAL MONEY MARKET. THIS WOULD COME ON TOP OF 245 MILLION PESOS IN SHORT-TERM DEBT NOW OUTSTANDING.

4. IN A CONVERSATION WITH AN EMBASSY OFFICER, MMIC CHAIRMAN AND PRESIDENT JESUS CABARRUS, SR., FLATLY DENIED THAT DBP WAS ABOUT TO TAKE OVER THE COMPANY, AND STATED THAT MMIC MANAGEMENT HAD "NOT EVEN THOUGHT" ABOUT SPLITTING OFF THE NICKEL OPERATION. HE ALSO CLAIMED THAT THE SUDDEN APPEARANCE OF DBP IN THE LIST OF TOP STOCKHOLDERS IS UNREMARKABLE. HE EXPLAINED THAT DBP HAD ORIGINALLY BEEN A STOCKHOLDER, BUT HAD SOLD TO PHILIPPINE VETERANS BANK THREE YEARS AGO, AND THAT VETERANS HAS NOW SOLD BACK TO DBP, FOR REASONS UNKNOWN TO CABARRUS. HE SAID THAT MMIC AND SHERRIT GORDON MINES (SGM) OF CANADA (WHO PROVIDED THE REFINING PROCESS) OWN THE LARGEST PART OF THE SHARES.

5. CARARRUS MAKES LITTLE SECRET OF THE TROUBLES THE PROJECT CONTINUES TO EXPERIENCE. FOR THE SIX MONTHS THROUGH THE END OF SEPTEMBER (NOT NINE MONTHS, AS REPORTED BY GONZAGA), THE NONOC OPERATION SUFFERED A NET LOSS OF 82 MILLIONS PESOS. THIS WIPED OUT A NET PROFIT OF ABOUT 44 MILLION PESOS FROM MMIC'S OTHER OPERATIONS. CABARRUS STATES THAT FOR OCTOBER, THE LOSS IS 15 MILLION PESOS. HE WAS QUICK TO POINT OUT (WITH AN EYE ON HIS CREDITORS, NO DOUBT) THAT FOR THE SAME MONTH, INTEREST PAYMENTS ON DEBT WERE 17 MILLION PESOS.

6. DURING A VISIT TO THE MINE IN SEPTEMBER, COMPANY OFFICIALS TOLD AN EMBASSY OFFICER THAT TEHIR PRODUCTION PROBLEMS CAN BE TRACED TO DESIGN DEFICIENCIES, SOME OF WHICH THEY LAY AT THE FEET OF THE DESIGN ENGINEERS, LIMITED OFFICIAL USE

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BECHTEL, AND TO STAFF PROBLEMS. BREAKDOWNS AND SHUT-DOWNS FOR MAJOR MODIFICATIONS HAVE BEEN FREQUENT. THE MINE HAS ALSO HAD TROUBLE RETAINING YOUNG PROFESSIONALS, PARTLY BECAUSE THEY RECEIVE MORE ATTRACTIVE OFFERS AFTER A PERIOD OF TRAINING AT THE REFINERY, AND PARTLY BECAUSE THE INSTALLATION, WITH ITS FINE DUST AND AMMONIA FUMES, IS A DECIDEDLY UNPLEASANT PLACE TO WORK. IN SEPTEMBER, SGM HAD REDUCED ITS EXPATRIATE PRESENCE TO

19, BUT HAD DEFINITE PLANS TO BEGIN BRINING IN MORE.

7. CABARRUS STATES THAT THE MINE MAY FINISH THE YEAR OPERATING AT ABOUT 75 PER CENT CAPACITY, BUT THAT THE AVERAGE FOR THE YEAR WILL ONLY BE AROUND 48 PER CENT. HE CONCLUDES THAT IT HAS BEEN A LONG, HARD BATTLE, BUT THAT MMIC STILL HOPES TO IRON OUT ITS PRODUCTION PROBLEMS AND BEGIN TO RECOUP ITS LOSSES SOON.

8. COMMENT. THE CONTINUED FINANCIAL PINCH FOR MMIC IS DISAPPOINTING, ESPECIALLY AFTER THE INJECTION OF \$40 MILLION IN ADDITIONAL LOAN CAPITAL BY DBP EARLY THIS YEAR (ONE OF THE SOLUTIONS PROPOSED BY EXIM EXECUTIVE VICE PRESIDENT BEIM LAST YEAR AT THIS TIME). THE FACT THAT MMIC CONTEMPLATES ISSUING SHORT TERM HIGH COST INSTRUMENTS IN THE LOCAL MONEY MARKET IS A MEASURE OF THE VENTURE'S PERSISTENT CASH FLOW PROBLEMS.

9. THE NONOC PLANT, WHICH WAS DESIGNED BEFORE THE ENERGY PRICE INCREASES OF 1973, CONSUMES VAST AMOUNTS OF BUNKER FUEL AND NAPHTHA (PRESENTLY COSTING APPROXIMATELY \$70 MILLION PER YEAR), AND REQUIRES A HIGH, SUSTAINED PRODUCTION VOLUME TO PAY FOR INPUTS. ANY FURTHER HIKE IN ENERGY PRICES WILL OF COURSE REQUIRE A COMMENSURATELY HIGHER OUTPUT JUST TO BREAK EVEN.

10. AS MIGHT BE EXPECTED IN A TROUBLED PROJECT OF THIS SORT, THE RELATIONSHIP BETWEEN SGM AND MMIC IS NOT ENTIRELY EASY. SGM OFFICIALS AT NONOC, FOR EXAMPLE, INDICATED TO AN EMBASSY OFFICER THAT THEY SUSPECT THE RELATIONSHIP BETWEEN MMIC ON ONE HAND AND MARUBENI CORP. AND MITSUI MINING AND SMELTING (BOTH OF WHICH OWN MMIC STOCK) ON THE OTHER HAS SOME LIMITED OFFICIAL USE

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THING TO DO WITH THE HIGH COST OF SPARES SOURCED IN JAPAN. THIS SORT OF SUSPICION, PLUS THE INTENTION BY SGM TO INCREASE ITS EXPAT STAFF, INDICATES THAT RUMORS OF A SPLIT-OFF, WITH SGM TAKING CONTROL OF THE NICKEL OPERATIONS CANNOT BE DISMISSED.

11. AS FAR AS THE EMBASSY CAN DETERMINE, HOWEVER, THE SITUATION DOES NOT YET SEEM TO BE DESPERATE, AND WE DOUBT THAT DBP WOULD WISH TO TAKE OVER. WHILE PROSPECTS FOR SOLVING PRODUCTION PROBLEMS INVOLVE TECHNICAL QUESTIONS BEYOND OUR COMPETENCE, THE MOOD OF MMIC AND SGM MANAGEMENT SEEMS TO BE THAT THEY WILL BE ABLE TO GET ON TOP OF THE SITUATION. END COMMENT. SULLIVAN

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